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SUBJECT: PMDB CHIEF AFFIRMS PARTY'S POSITION AS POWER BROKER BUT
BALKS AT PREDICTING PRESIDENTIAL RACE

REF: (A) SAO PAULO 676; (B) BRASILIA 1194;

(C) SAO PAULO 623; (D) BRASILIA 1136;

(E) SAO PAULO 573 AND PREVIOUS; (F) SAO PAULO 30

SENSITIVE BUT UNCLASSIFIED - PLEASE PROTECT ACCORDINGLY

SUMMARY

1. (SBU) Michel Temer, President of the Brazilian Democratic Movement Party (PMDB), believes President Lula has done a masterful job of disassociating himself from the political corruption scandals that have crushed some of his closest advisers. He also has effectively expanded social programs to earn the loyalty and support of Brazil's lower-middle and lower classes. At the same time, Lula's opponent, Sao Paulo ex-Governor Geraldo Alckmin, suffers from a lack of charisma and a failure to have left a visible mark in five years at the helm of Brazil's largest state. Nevertheless, Temer declines to predict what will happen in this race, except to say it will go to a second round, in which "anything can happen." He confirmed that his own party will not run a candidate for president and will not ally with either Lula's Workers Party (PT) or the opposition Brazilian Social Democracy Party (PSDB), at least not before the second round. However, the PMDB will win the governors' races in at least ten and possibly as many as fifteen states, and will again have the largest bloc in both the Senate and the Chamber of Deputies, so that "whoever wins the presidential election will have to come to us to get anything done." END SUMMARY.

LULA'S SLEIGHT OF HAND

12. (SBU) In a June 19 meeting with Consul General (CG) and Poloff, Michel Temer, Federal Deputy from Sao Paulo, offered his assessment of the balance of forces for the presidential election. Though anything can still happen -- he has seen candidates overcome much greater disadvantages than Alckmin currently faces, and win -- it is clear that President Lula is in a strong position. Temer dispassionately analyzed how Lula had seen his Chief of Staff and the entire leadership of his party disgraced, and prominent Congressional members of his party dragged through scandal, and had emerged personally more or less untouched. This was partly because other political parties -- Temer mentioned the PSDB and the Liberal Front Party (PFL) but not his own PMDB, though his comment could just as easily apply to them -- had, at different times, been involved in affairs akin to the PT's infamous "mensalao" bribery scheme, and were thus not eager to expose the PT's misdeeds to the fullest.

13. (U) It was also because Lula had such a strong bond with the people, the so-called C, D, and E classes - i.e., the lower-middle and lower classes. Many in these strata, in Temer's view, believe that Fernando Henrique Cardoso (FHC) had robbed the poor and given to the rich, while Lula robs the rich and gives to the poor. Lula has expanded the "Bolsa Familia" program from 6.5 million families in 2004 to 8.7 million in 2005 to 11 million families this year, or (assuming two children per family) roughly 44 million Brazilians. This, combined with the increase in the minimum wage, the rise of the Real against the US dollar, and the fall in the price of certain basic food staples, make the poor much better off. Paradoxically, many of the rich, especially bankers and other major financial players, have also benefited from Lula's policies.

14. (SBU) It is the middle class that has suffered from both an increasing tax burden and the loss of professional-level jobs. In

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truth, Temer continued, it is difficult to be optimistic about Brazil's economic future. The fact of 11 million families eligible for Bolsa Familia handouts implies a minimum of 44 million people in abject misery in Brazil. He described a recent event he had attended sponsored by the Institute for Industrial Development Studies (IEDI), where Minister of Development, Commerce, and Industry Luiz Fernando Furlan delivered an upbeat speech. When challenged by a member of the audience with a few hard questions and statistics, Furlan, who has himself been at times a tough critic of the GoB's economic policies, was at pains to respond. Brazil faces serious challenges in fostering growth, stimulating productivity, attracting investment, improving infrastructure, and reducing inequality; however, Lula's sleight of hand has made many voters all but unaware of these growing problems.

ALCKMIN'S LACK OF CHARISMA

15. (SBU) Meanwhile, Alckmin is simply stuck. Temer believes that since inheriting the governorship from Mario Covas in 2001, Alckmin has provided honest, decent, competent government to Sao Paulo. However, in a country that relishes superlatives, he did not champion any great works, and his accomplishments are not visible. Alckmin is not personally aggressive or charismatic and is not given to showmanship, so he didn't leave a distinctive mark on the state. By way of comparison, Orestes Quercia (ref C), Governor of Sao Paulo from 1987 to 1990, was a controversial (many say corrupt) figure, but he definitely left his mark on the state in the many streets and highways and prisons and hospitals he built. (COMMENT: The same might be said of colorful, and reportedly equally corrupt, former Mayor and Governor Paulo Maluf. END COMMENT.) Former President Cardoso was another example of a politician who had charisma. But let's wait and see what happens, Temer suggested. Wait until after the World Cup, which could impact on the voters in a variety of different and not easily predictable ways, depending on the result. Wait until the government-subsidized television advertising begins. It will be "a great war" on the airwaves, and it opens up innumerable possibilities for the underdog.

16. (U) Temer, a former Sao Paulo state Secretary for Public Security, was not certain whether Alckmin would suffer as a result of the recent violence on the streets and in the prisons of Sao Paulo (ref E) perpetrated by the criminal gang First Capital Command (PCC). Some of his public criticism of his successor, Governor Claudio Lembo, had been unfortunate and not good for his image. But only time will tell how this situation plays out.

LULA'S TURN TO THE LEFT?

17. (SBU) CG asked what a second Lula term would look like, assuming he is re-elected. Unlike some of our interlocutors, Temer believes Lula may take a more radical (i.e., populist) approach during a second term. The recent incident in which radicals from the Movement for the Liberation of the Landless (MLST) stormed the Chamber of Deputies (ref D) and committed acts of vandalism was a harbinger of things to come. The group's leader, a member of the PT's Executive Committee, had on many occasions over the years been seen at Lula's side. The PT had suspended him, but had taken no further action and did not appear particularly upset over the episode, Temer noted.

18. (SBU) Lula, in Temer's view, was a trade unionist who had done well for himself, who, once re-elected, might finally begin to heed his friends on the left. Very possibly he would let himself be led

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away from the orthodox macro-economic policies that have dominated his first term. (COMMENT: Some other observers have also pointed to the GOB's expansion of social spending in recent months as an indication that Lula is drifting left. Thus far, however, this spending seems in line with the pump-priming measures of most incumbents seeking re-election. While Temer sees Lula's campaign pitting "rich versus poor" as a sign of things to come in a second term, many analysts who have followed Lula's career characterize him as a "cultural conservative" who is unlikely to succumb to the radical leftist/populist temptation. A more worrisome, and more likely, scenario is a second-term Lula government that lacks the policy direction, political will, and working majority in Congress required to push through essential economic and political reforms. END COMMENT.)

PMDB - A HOUSE (STILL) DIVIDED

19. (SBU) Turning to his own party's fortunes, Temer confirmed reports that the PMDB will not run its own candidate for President, and will not enter into a formal alliance with either the PSDB or the PT. Any of these options at the national level, he explained, would damage the party's chances in some of the states because the "verticalization" rule remains in effect during the 2006 elections. The recent ruling by the Superior Electoral Tribunal (TSE), which would have tightened even further the rules governing party alliances (ref B), was probably correct, Temer averred, even though it would have been disastrous for the PMDB. If you're going to require parties to replicate their national alliances at the state level, it makes perfect sense to go a step further and say that parties that don't run or formally support presidential candidates may not ally at the state level with parties that do. Nevertheless, as the head of a party whose lifeblood is coalition-building at the state level, Temer was relieved when the TSE reversed itself within 48 hours, and he looked forward to the 2010 elections when the Constitutional amendment abolishing the "verticalization" rule altogether would enter into force.

110. (SBU) If the presidential election goes into a second round, as Temer is sure it will, the PMDB may at that point throw its support to one side or the other. The PMDB remains split almost evenly between the pro- and anti-Lula groups. The former seeks alliances with the PT and hopes for several Ministries in Lula's second administration. Temer, who is anti-Lula, was highly critical of the pro-Lula faction and commented wryly over some of the party's internal contradictions and divisions. Renan Calheiros, President

of the Senate, is the leader of the PMDB's pro-Lula faction; yet, in his home state of Alagoas (northeast), the PMDB will support the PSDB's gubernatorial candidate, Senator Teotonio Vilela. Another pro-Lula leader is Senator (and former President) Jose Sarney, but his daughter, PFL Senator Roseana Sarney, will be running for Governor of Maranhao (also in the northeast) with PMDB support against a PT candidate. Temer outlined the situation state by state, ending with Sao Paulo. The PSDB, he noted, badly wants an alliance with the PMDB, but they want to choose the PMDB candidate to be Jose Serra's running mate. This issue will be resolved within the week, since the PMDB holds its state convention on June 24. The party will not hold a national convention June 29 as originally planned, since all its issues at the national level were resolved at a preliminary June 11 caucus.

¶11. (SBU) Temer, who himself had strongly favored fielding a PMDB presidential candidate (ref F), noted that by relinquishing this ambition, the PMDB stands to win the governors' races in ten or perhaps even fifteen states, and will again have the largest blocs in both the Senate and the Chamber of Deputies. Thus, whichever

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party wins the Presidency will inevitably have to seek an alliance with the PMDB in order to govern. Temer spoke caustically of the Lula administration's miserly rewards for its allies in the PMDB. They give the job of Minister to a PMDB loyalist, but no real control over the Ministry; thus, he can't accomplish anything. In contrast, Temer believes that in return for joining a governing alliance, the party should be given control over a sector of the economy, agriculture, say, or health, and full responsibility for operating that sector, and should receive full credit or blame for the successes and failures in that sector. (COMMENT: Left unsaid, of course, is that the sort of control Temer envisions would also give the PMDB, and other allied parties, the opportunity to advance their political patronage goals at the taxpayers' expense. The PMDB, which is Brazil's largest political party, is already well-known as a vehicle for patronage. END COMMENT.)

COMMENT

¶12. (SBU) Temer was more charitable in his assessment of Alckmin's campaign and his performance as Governor than Alckmin's own PSDB colleague, Andrea Matarazzo (ref A). Nevertheless, Temer's critique hits home: Alckmin may perform in the coming months, but so far he simply has not connected at any level with the electorate. Lula's job performance, on the other hand, may be open to question, but his ability to communicate with and relate to the average Brazilian is unsurpassed. Temer is correct that whichever candidate wins will need to turn to the PMDB for support in governing. The real problem is that the PMDB has no ideology or policy framework that it could bring to the task of formulating and implementing a coherent national political agenda. Despite the party's illustrious history as the guiding force that led Brazil from military dictatorship to democracy, the PMDB, which now holds the balance of political power, has devolved into a loose coalition of opportunistic regional "caciques" who for the most part - and there are exceptions - seek political power for its own sake. Such a party is hardly suited to the task of providing political direction, which would be particularly important in a post-election alliance with Lula's rudderless PT. END COMMENT.

¶13. (U) This cable was coordinated/cleared with Embassy Brasilia.

MCMULLEN